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FINANCIAL PERFORMANCE ANALYSIS OF RURAL BANKS IN MANOKWARI: A CASE STUDY OF ARFAK INDONESIA RURAL BANK

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Abstract

The purpose of this research is to analyse the financial performance of Arfak Indonesia Rural Bank in Manokwari Regency in the period of 2014 – 2018 using financial ratios include liquidity, solvency and profitability ratios. Liquidity ratio is measured using Loan to Deposit Ratio (LDR), solvency is measured using Capital Adequacy Ratio (CAR), and profitability ratio is measured using Net Profit Margin (NPM) and Return on Asset (ROA). The research results shows that in the past 5 years, the average value of LDR (113%) is too high which is above 80%, thus the bank does not have enough liquidity to cover any unforeseen fund requirement. Furthermore, the average value of CAR (10.67%) was between the value of 9.5% and 11%, which indicates that the bank has enough capital to cushion potential losses and protect depositor's money. As for the average value of NPM (39.46%) and ROA (6.73%) shows that the bank has a very good ability in generating profits.

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1. Introduction

Manokwari, as the capital city of West Papua Province, has rural banks as one of the financial institutions that support the economy and development as well as increasing the economic empowerment of the community. Generally, the location of rural bank that is most located close to the community who need financial services is one of the advantages in rural bank industry. Rural banks prioritize a personal approach in providing services in accordance with the characteristics of the surrounding community by giving fast and simple service processes and also by providing products characteristics the community needs, such as flexible amounts and credit terms and simpler administrative requirements.

However, there are some challenges faced by rural bank industry include limited paid up capital, quality and quantity of human resources that are still being improved, governance and competitiveness of rural bank that still needs be improved, expensive fund sources (high cost offunds), and less competitive lending rates due to high overhead costs. Furthermore, the business challenges faced in the industry are in the form of increasingly stringent regulations, policies for channeling people's business credit, industrial revolution 4.0 and digitizing banking services.

Table 1. Growth of Total Rural bank and Rural Bank Offices Based on Location – December 2018

No.	Location	Total	No.	Location	Total
1	West Java	1,056	19	East Kalimantan	51
2	Banten	174	20	Central Kalimantan	17
3	DKI Jakarta	52	21	Central Sulawesi	47
4	DI Yogyakarta	241	22	South Sulawesi	43
5	Central Java	1,594	23	North Sulawesi	66
6	East Java	1,583	24	Southeast Sulawesi	26
7	Bengkulu	12	25	East Sulawesi	2
8	Jambi	32	26	Gorontalo	8
9	Aceh	38	27	NTB	114
10	North Sumatera	140	28	Bali	322
11	West Sumatera	222	29	NTT	19
12	Riau	67	30	Maluku	20
13	Kepulauan Riau	78	31	Papua	26
14	South Sumatera	49	32	North Maluku	8
15	Bangka Belitung	17	33	West Papua	10
16	Lampung	75	34	Others	-
17	South Kalimantan	34			
18	West Kalimantan	30		**Total**	**5,494**

Source: (F. S. A. R. o. Indonesia, 2019)

Based on the data in Indonesia Banking Statistics 2018, there are 10 rural banks in West Papua province as of December 2018. However, the development of rural banks in West Papua province in the last 5 years has tended to decline since the level of growth in the value of total assets was only about 0.004% as of December 2018, and as for the Third Party Funds is -0.061%. The value of Non-Performing Loans to rural banks in West Papua also experienced a significant increase of 3.22% in 2018, from Rp27 billion in 2017 to Rp114 billion in 2018 (Province, 2019)

Arfak Indonesia Rural Bank or also known as ARFINDO is a rural bank located in Manokwari Regency West Papua. It has an important role in the community as an economic driver. It has proven to be beneficial for small and medium economic communities since it is easily accessible to them. Although there are currently many microfinance institutions, both banks and non-banks, its existence has gained recognition from the public. Therefore, assessing the financial performance of the bank becomes very important. Not only to give information about the bank's health to managers or other parties but also considering that the banking operations are very sensitive to the country's economic condition (Ottay & Alexander, 2015).

In order to determine financial performance, the most frequently used method is financial ratio analysis (Handayani, Korompot, & Hadjaat, 2013). Financial ratio analysis requires financial statement of at least the last two years of the company's operations to be compared (Tanor, Sabijono, & Walandouw, 2015) The type of financial ratios required in each company is certainly different, depending on its acitivites. According to (Kasmir, 2002) some financial ratios that are considered important include liquidity, solvency and profitability ratios.

Liquidity ratio shows the ability of the company to meet short-term obligations, whereas solvency ratio is the ability of the company to pay long-term financial obligations. As for profitability ratios is the management's return on sales and investement (Singh & Schmidgall, 2002).

Thus, the purpose of the research is to analyse the performance of Arfak Indonesia Rural bank in the period of 2014 to 2018 using financial ratios, include liquidity, solvency and profitability ratios. To determine the liquidity ratio, this research use Loan to Deposit Ratio (LDR) as the measurement. This ratio is able to measure the ability of the bank to refinance the withdrawals that have been made by customers by relying on loans as source of liquidity (Wulandari & Zulakarnain, 2016). Further, for the solvency ratio, this research uses Capital Adequacy Ratio (CAR). This ratio is one of the most significant current issues in banking which evaluate the amount of the bank's efficiency and stability (Bateni, Vakilifard, & Asghari, 2014). Lastly, the profitability ratio is measured using Net Profit Margin (NPM) and Return on Asset (ROA) ratios. NPM measures the company's ability to generate net profit, whereas, ROA measure the company's effectiveness in utilizing its assets (Asmirantho & Yuliawati, 2015). Morover, the following are research question that have been formulated: How is the performance of Arfak Indonesia Rural bank when viewed from a liquidity perspective using LDR, solvency perspective using CAR and profitability perspective using NPM and ROA?

The results of this research are expected to provide information regarding the actual financial condition of Arfak Indonesia Rural Bank in Manokwari Regency within five years. The information can then be used both as an input, as well as a consideration material by internal or external parties of the bank in making business or investement decision (Alamry, 2020)

2. Methods

Financial performance analysis essentially aims to determine the company's financial condition by making an assesmenet using comparisons and applicable rules (Tanor et al., 2015). Financial performance can be analyzed from various point a view using various parameters, such as financial ratios. Financial ratio analysis is basically one of a method used to analyze financial performance.

The present research is a case study conducted at Arfak Indonesia (ARFINDO) rural bank in Manokwari Regency, West Papua. It aims to analyse the performance of the rural bank in the period of 2014 to 2018 using financial ratios, include liquidity, solvency and profitability ratios.

The primary data examined is the Bank's financial statement from 2014 to 2018 which have been published on the Financial Services Authority (OJK) website. The bank's financial data is then analysed using financial ratio analysis as follows:

a. Liquidity Ratio

$$\textit{Loan to Deposit Ratio (LDR)} = \frac{\textit{Total Loans}}{\textit{Third Party Fund}} \times 100\%$$

b. Solvency Ratio

$$\textit{Capital Adequacy Ratio (CAR)} = \frac{\textit{Capital}}{\textit{Risk Weighted Assets}} \times 100\%$$

c. Profitability Ratio

$$\textit{Net Profit Margin (NPM)} = \frac{\textit{Net Profit}}{\textit{Sales}} \times 100\%$$

$$\textit{Return on Asset (ROA)} = \frac{\textit{Net Income}}{\textit{Total Asset}} \times 100\%$$

Source: (Kaunang, 2013) & (Tanor et al., 2015)

Furthermore, the secondary data of the research is in the form of documents related to ARFINDO and also literature/books and articles that are relevant to this research, such as previous studies by Handayani et.al (2013), Kaunang (2013), Tanor et.al (2015), Ottay & Alexander (2015), that analyze the performance of a company using various parameters. In addition, the research data obtained through observation, interviews and documentation.

3. Results and Discussion

3.1 Liquidity Ratio

Liquidity ratio shows the ability of ARFINDO in meeting it's short-term obligation on time, can pay back to all depositors, and can fulfill the credit request submitted without delay. Based on the analysis liqudity ratio using LDR shows that within the year of 2014 to 2018 the value of LDR is between 104% to 121% with the average LDR value of 113% (Table 3). This average value is in the criteria of LDR between 100% and 120% which means not good or less healthy according to Circullar Letter of Central Bank of Indonesia No.13/24/DPNP/2011 (B. o. Indonesia, 2011). The high LDR value means that the bank may not have enough liquidity to cover any unforeseen fund requirements. The increase of the LDR value was driven by high credit growth from Rp222 million in 2104 to Rp517 million in 2018, while Third Party Fund only grew 1% to Rp428 million in 2018.

3.2 Solvency Ratio

Solvency ratio shows the ability of ARFINDO in fulfilling its long-term financial obligation. This ratio concerns collateral that measures how far the bank is funded by external parties (creditors). As seen in Table 2, the solvency ratio measured by CAR shows that the CAR value has shrunk significantly by 92% in 2018, from 12.47% in 2017 to 1.05% in 2018. This is due to a 92% decrease in capital in 2018, while the value of risk-weighted assets only declined by 5%. Thus, the CAR value in 2018 becomes deflated. However, according to Circullar Letter of Central Bank of Indonesia No.13/24/DPNP/2011, the average value of CAR (10.67%) is between the value of 9.5% and 11%, therefore it is still considered good or healthy. This means that the bank does have enough capital to cushion potential losses and protect depositors's money.

3.3 Profitability Ratio

Profitability ratio indicate the ability of ARFINDO in generating profits during a certain period, also aims to measure the level of effectiveness of management in running bank's operational. Using NPM and ROA as the measurement of profitability ratio, it can be seen in Table 3 that the value of NPM within 5 years is ranged between 18.73% to 46.21% with the average value of 39.46%. The average value of NPM is in the criteria above 5% (very good), which according to Circullar Letter of Central Bank of Indonesia No.13/24/DPNP/2011 means the bank is efficient at converting sales into actual profit.

Whereas for the ROA value, it is shown that the values are fluctuated above 1.5% within 5 years period, which is ranged between 5.68% to 8.64% with the average value of 6.73% (Table 3). Thus, the ability of the bank in generating profit is very good according to Circullar Letter of Central Bank of Indonesia No.13/24/DPNP/2011. The greater value of ROA shows the more effective the bank is in using their assets to generate income.

Table 2. Financial Ratio Analysis of Arfak Indonesia Rural Bank from 2014 to 2018

Financial Ratios	**2014**	**2015**	**2016**	**2017**	**2018**
	(%)	**(%)**	**(%)**	**(%)**	**(%)**
Liquidity Ratio					
Loan to Deposit Ratio	112	108	121	104	121
Solvency Ratio					
Capital Adequacy Ratio	13.88	12.16	13.77	12.47	1.05
Profitability Ratio					
Net Profit Margin	46.21	43.01	45.75	43.58	18.73
Return on Asset	8.64	6.70	6.64	6.00	5.68

Source: Analysed Primary Data (2020)

Table 3. Descriptive Statistic

	N	**Minimum**	**Maximum**	**Average**	**Std.Deviation**
LDR	5	104	121	113	6.853
CAR	5	1.05	13.88	10.67	4.856
NPM	5	18.73	46.21	39.46	10.435
ROA	5	5.68	8.64	6.73	1.029
Valid N (listwise)	5				

Source: Analysed Primary Data (2020)

4. Conclusion

As shown in the results and discussion above, the Bank's average LDR value of 113% means that the Bank's financial performance according to Circullar Letter of Central Bank of Indonesia No.13/24/DPNP/2011 is considered not good when viewed from a liquidity perspective. In contrary, from solvency perspective, the bank's financial performance is considered good since the average value of CAR is 10.67%. Further, from profitability perspective, the average NPM value of 38.46% and ROA value of 6.73% means that the bank's financial performance is very good.

Therefore, it can be concluded that , the financial performance of Arfak Indonesia Rural bank within the period of 2014 to 2018 when viewed from the perspective of solvency and profitability ratio is considered good, where all the results of the ratio calculation have met the operasional standard performance and health assessment issued by Bank Indonesia for rural banks. Meanwhile, when viewed from the perspective of liquidity ratio, the result is the opposite.

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